

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05
SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 L-03
H-02 PA-02 PRS-01 FEA-01 IO-13 AF-08 ARA-10
EUR-12 NEA-10 /151 W
-----290406Z 017656 /63

R 290325Z MAR 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 6475
TREASURY DEPT WASHDC

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PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: PRESS REPORT OF FIN MIN OPPOSITION TO IMF EXPANSION
PROPOSALS

1. SUMMARY: NIHON KEIZAI ARTICLE MARCH 27 SAYS MINISTRY
OF FINANCE (MOF) IS UNWILLING TO SUPPORT EXPANSION OF INTERNATIONAL
MONETARY FUND (IMF) IF EXPANSION CONSTITUTES SYSTEM FOR TAKING OVER
BAD DEBTS OF U.S. BANKS; ALSO SAYS MOF IS STUDYING ITS OWN
PROPOSALS CENTERING ON EXPANSION OF IMF'S PRESENT LENDING
OPERATIONS. END SUMMARS.

2. FOLLOWING IS EMBASSY TRANSLATION ARTICLE ON EXPANSION IMF WHICH
APPEARED MARCH 27 IN USUALLY WELL-INFORMED ECONOMIC DAILY NIHON
KEIZAI. BEGIN TEXT.
"NEW IMF FINANCING SYSTEM SURFACES SUDDENLY; AMERICAN BANKS
SUFFERING FROM BAD DEBTS; JAPAN TO PROPOSE OWN PLAN, IN
OPPOSITION TO TAKING OVER FROM U.S. BANKS.

IN ORDER TO LIGHTEN THE BURDEN OF THE ACCOUMLATED LOANS
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TO THE DEVELOPING NATIONS, THE IMF IS MOVING FOR THE
ESTABLISHMENT OF A NEW FINANCING SYSTEM. CONCERNING
THIS, THERE IS EVEN APPEARING THE PROBING VIEW THAT "IT
MAY BE FOR THE SAKE OF AMERICAN BANKS, WHICH ARE SUFFERING
FOR HAVING MADE EXCESSIVE LOANS TO THE DEVELOPING NATIONS."
THIS IS BECAUSE NOT ONLY THE IMF BUT ALSO U.S. MONETARY
CIRCLES ARE RECENTLY STARTING TO APPLY FOR THE EXPANSION OF

THE IMF'S LOAN FUNCTIONS. OUR COUNTRY'S FINANCE MINISTRY SAYS THAT "IF IS IS A SYSTEM FOR TAKING OVER THE BAD DEBTS OF AMERICAN BANKS, WE CANNOT SUPPORT IT," AND IT IS NOW STUDYING OUR COUNTRY'S OWN COUNTER-PROPOSAL. AT THE IMF INTERIM COMMITTEE MEETING TO BE HELD IN THE LATTER PART F APRIL, THE CONFLICT OF VIEWS AMONG THE ADVANCED NATIONS OVER THE RELIEF OF THE DEVELOPING NATIONS IS LIKELY TO COME TO THE FORE.

THE CONCEPT FOR A NEW IMF FINANCING SYSTEM HAS NOT YET BEEN FORMALLY PROPOSED, BUT ACCORDING TO THE U.S. BUSINESS WEEK MAGAZINE AND THE NEW YORK TIMES, IT PROPOSES THE ESTABLISHMENT OF A SPECIAL FRAMEWORK OF A TOTAL OF \$20 BIL, SEPARATELY FROM THE NORMAL FINANCING FRAMEWORK. OF THIS AMOUNT, THE U.S. AND SAUDI ARABIA ARE TO PROVIDE 30 PERCENT EACH, OR A TOTAL OF 60 PERCENT, WHILE OF THE REMAINING, 15 PERCENT WILL BE PROVIDED BY SIX OTHER NATIONS, INCLUDING JAPAN, AND 25 PERCENT BY THE IMF. IT IS SAID THAT IMF DIRECTOR WITTEVEEN HAS ALREADY OBTAINED THE UNDERSTANDING OF SAUDI ARABIA AND OTHERS. AFTER THE OIL CRISIS, THE IMF ESTABLISHED AN OIL FACILITY (OI FUNDS FINANCING SYSTEM, DISSOLVED IN MARCH, 1976), CENTERING ON CONTRIBUTIONS MADE BY THE OIL-PRODUCING NATIONS. THE CONCEPT THIS TIME IS REGARDED AS A "STRUCTURE FOR THE RECYCLINR OF OIL DOLLARS," TO TAKE THE PLACE OF THE ABOVE.

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WHAT IS TO BE NOTED WITH ATTENTION IS THE FACT THAT, AS IF TO KEEP PACE WITH THESE IMF MOVES, U.S. BANGKING CIRCLES AND CONGRESS HAVE RECENTLY STARTED TO APPEAL FOR THE "RELIEF OF THE DEBTS OF THE DEVELOPING NATIONS." MORGAN GUARANTY TRUST, A LEADING AMERICAN BANK, RECENTLY ISSUED A REATISE, CALLING FOR THE "EXPANSION OF THE IMF FUNDS." U.S. FEDERAL RESERVE BOARD CHAIRMAN BURNS ALSO CALLED FOR THE NEED OF A "NEW FINANCING SYSTEM, WHICH INCLUDES OPEC," AT THE U.S. SENATE.

AMERICAN BANKS SHARPLY INCREASED THEIR LOANS TO DEVELOPING NATIONS, CENTERING ON BRAZIL AND MEXICO, AFTER THE OIL CRISIS. HOWEVER, DUE TO THE STAGNATION OF WORLD BUSINESS AND THE STAGNATION OF THE PRICES OF PRIMARY PRODUCTS, THE OUTLOOK FOR RECOVERING THE LOANS IS BECOMING DOUBTFUL. ACCORDINR TO THE BURNS TESTIMONY, THE BORROWINGS OF HE NON-OIL-PRODUCING NATIONS FROM ABROAD REACHED THE TOTAL OF \$180 BIL, AS OF THE END OF 1976. OF THIS AMOUNT, IT IS SAID THAT \$45 BIL ARE LOANS FROM AMERICAN BANKS. THE

TIME FOR THE REPAYMENT OF THESE LOANS IS GRADUALLY APPROACHING,
AND IT IS FEARED THAT IF THESE LOANS ARE NOT REPAID, THE

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MANAGEMENT OF THESE AMERICAN BANKS THEMSELVES WILL
BECOME BANKRUPT. HOWEVER, IF THESE FUNDS ARE WITHDRAWN
FROM THE DEVELOPING NATIONS, THERE IS A POSSIBILITY OF ITS
DEVELOPING INTO WORLD-WIDE MONETARY UNEASINESS. IT SEEMS,
THEREFORE, THAT THEY WANT THE IMF TO TAKE OVER A PART OF
THESE LOANS EXTENDED BY AMERICAN BANKS.

AT THE SAME TIME, THE PROBLEM OF THE DEVELOPING
NATIONS' ACCUMULATED DEBTS IS A MATTER OF GREAT CONCERN FOR
JAPAN, TOO. IF CONFUSION SHOULD ARISE IN INTERNATIONAL
FINANCING, TRADE STAGNATION WILL BECOME UNAVOIDABLE. ALSO,
JAPANESE BANKS' LOANS TO THE DEVELOPING NATIONS HAVE ALSO
REACHED SEVERAL BILLION DOLLARS, AND THEY POSE A BIG
PROBLEM FOR BANK MANAGEMENT. HOWEVER, THE FINANCE MINISTRY
SAYS THAT "IT IS SOMEHOW DIFFICULT TO GO ALONG WITH THE IMF
CONCEPT THIS TIME." ITS VIEW IS THAT "IN REGARD TO THE BAD
DEBTS OF U.S. BANKS, U.S. BANKS THEMSELVES SHOULD BASICALLY
TAKE THEIR OWN MEASURES, SUCH AS THE PUTTING OFF OF THE
REPAYMENT, AND IT IS NOT LOGICAL FOR THE IMF, WHICH IS THE
JOINT
ORGAN OF THE VARIOUS NATIONS, TO TAKE OVER THE LOANS"
(INTERNATIONAL FINANCE BUREAU). BEHIND THIS, THERE IS, OF
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COURSE, THE SITUATION THAT IT WILL BE TROUBLESOME IF JAPAN WERE TO BE ASKED TO SHOULD NEW FUNDS, THROUGH THE ESTABLISHMENT OF A NEW SYSTEM.

FOR THIS REASON, THE FINANCE MINISTRY HAS STARTED STUDYING OUR COUNTRY'S OWN COUNTER-PROPOSAL, CENTERING ON THE EXPANSION OF THE IMF'S PRESENT LOAN SYSTEM. EVEN THOUGH IMF FUNDS HAVE DECREASED, IT STILL HAS ABOUT 4 BIL SDR'S (ABOUT \$4.6 BIL) IN USABLE FUNDS. STILL FURTHER, THERE WILL BE AN INCREASE OF 9.8 BIL SDR'S IN ITS FUNDS, DUE TO THE INCREASING OF ITS FUNDS FOR THE SIXTH TIME, TO GO INTO EFFECT EVEN DURING THIS YEAR. ALSO, BESIDES NORMAL FINANCING, AS THE FINANCING SYSTEM, THERE IS THE SYSTEM OF OFFERING EXPANDED CREDIT (SPECIAL FINANCING TOWARD NATIONS SUFFERING FROM STRUCTURAL DEFICITS IN THEIR INTERNATIONAL PAYMENTS BALANCE) AND THE SYSTEM OF FINANCING TO COMPENSATE FOR EXPORT FLUCTUATIONS (FINANCING FOR THE WORSENING OF THE INTERNATIONAL PAYMENTS POSITION DUE TO THE STAGNATION OF EXPORTS OF PRIMARY PRODUCTS, ETC.). HOWEVER, THESE SYSTMS ARE NOT UTILIZED VERY MUCH, DUE TO THE SEVERITY OF THE TERMS, ETC.

CONCERNING THESE FINANCING TERMS, THE FINANCE MINISTRY IS NOW STUDYING CONCRETE MEASURES AS TO "WHAT EXTENT THEY CAN BE EASED." AS MEASURES FOR THE SECURING OF FINANCIAL SOURCES, THE FINANCE MINISTRY IS PLANNING TO PROPOSE (1) THE RAISING OF THE CONTRIBUTION RATIO OF NATIONS WHICH HAVE FAVORABLE ECONOMIC SITUATIONS, SUCH AS JAPAN, ON THE OCCASION OF THE 7TH INCREASING OF THE IMF FUNDS, EXPECTED TO BE DECIDED, EVEN DURING THIS YEAR,(AND (2) THE IMF'S BORROWING SEPARATELY FROM THE OIL-PRODUCING COUNTRIES, ETC., IF THE FUNDS COULD STILL BE SHORT.

AT THE SERIES OF INTERNATIONAL CONFERENCES, INCLUDING THE MEETING OF THE IMF INTERIM COMMITTEE (APRIL), THE ADVANCED NATIONS SUMMIT CONFERENCE (MAY) AND THE INTERNATIONAL ECONOMIC COOPERATION CONFERENCE
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(MAY), THE PROBLEM OF THE ACCUMULATED DEBTS OF THE DEVELOPING NATIONS IS EXPECTED TO BECOME A BIG AGENDA ITEM. HOWEVER, IT SEEMS LIKELY THAT NOT ONLY THE CONFLICT BETWEEN THE DEVELOPING NATIONS AND THE ADVANCED NATIONS, BUT ALSO THE CONFLICT OF INTERESTS AMONG THE ADVANCED NATIONS THEMSELVES, IS EXPECTED TO COME TO THE SURFACE." END TEXT.
SHOESMITH

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